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Central Intelligence Agency



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DIRECTORATE OF INTELLIGENCE

17 April 1985

**Japan: Potential Responses to
Discriminatory Trade Actions** [redacted]

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Summary

An import surcharge on Japanese goods, a complete ban on imports of Japanese telecommunications equipment, or similarly harsh US retaliation for a perceived failure of the current MOSS (market-oriented sector-specific) trade negotiations would, we believe, mark the beginning of a downward trend in bilateral relations. The Japanese have traditionally placed themselves among Washington's staunchest allies and a widespread perception that Tokyo is viewed as an enemy in the commercial field could sour other aspects of the relationship. [redacted]

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Japan's dependence on the United States for defense would temper a deterioration in bilateral ties, as would the complex weave of political and social as well as economic relations that are part of the postwar period. The Japanese see the US as

This memorandum was prepared by [redacted] Japan Branch, Northeast Asia Division, Office of East Asian Analysis. Information available as of 17 April was used in its preparation. Questions and comments are welcome and may be directed to the Chief, Japan Branch, Northeast Asia Division, OEA, [redacted]

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the primary partner and would be unlikely to move quickly to alter the fundamentals of the alliance. But discriminatory sanctions against Japan would contribute to a loss of confidence in the United States as an ally. The US-Japanese relationship was hurt by the "Nixon shocks" of 1971, when without warning the US banned soybean exports to Japan, established relations with China, and imposed a global import surcharge. Those incidents are still cited as examples of US unreliability and probably were a factor in hastening Japan's move to a more independent foreign policy in the 1970s. [redacted]

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Short-Term Reaction

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[redacted] The Japanese have moved more quickly than we thought they could or would to effect progress in MOSS sectors (telecommunications, electronics, forestry products, and pharmaceuticals and medical equipment) despite their belief that the trade imbalance is due largely to the unusual strength of the dollar. Harsh moves by Washington might extract more concessions, but improved market access will do little to redress the bilateral trade imbalance in the near term.

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- Concessions gained probably would not lead to significant increases in US exports until the dollar weakens.
- Improved access for foreign products will not affect Japanese buying preferences in the short term, and a perception that the United States was unfairly discriminating against Japan might provoke a reaction against US products. [redacted]

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Furthermore, while conceding on some MOSS points, Tokyo might retaliate in other sectors to show it has not capitulated completely to Washington.

- The Japanese certainly would go to GATT in the event of Japan-specific action. They might receive support from countries that would see themselves as the next target. For example, EC countries--still negotiating steel export restraints with Washington--might vote with the Japanese.

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Longer Term Responses

Given the importance of the US market to Japan, we believe Tokyo would do what it could to mollify Washington in an effort to end retaliatory measures--perhaps imposing voluntary export restraints, an export surcharge, or an interest equalization tax to reduce bilateral trade imbalances--but would begin to plan for a future marked by less interdependence with the United States.

- Tokyo would ensure that the United States remains only a swing supplier of US coal and LNG.
- The Japanese would attempt to diversify other commodity purchases away from the United States. The Japanese already are buying more Chinese corn at the expense of US corn exporters,

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- Japanese companies would try to reduce their dependence on the US export market--probably with Tokyo's help--by increasing direct investment in the United States and developing new markets.

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Harsh US action would be damaging to Prime Minister Nakasone, who is already under fire for his handling of the MOSS negotiations. The Liberal Democratic Party (LDP), as the ruling party, might also be affected. Nakasone has staked much prestige on his personal relationship with the President, and popular support for the LDP is based in part on the party's ability to maintain a stable economy and manage relations with the United States.

- With his position already potentially weakened by the illness of his major ally--political kingmaker Kakuei Tanaka--Nakasone must be wary of attack from his rivals. In the face of discriminatory US measures he would be less willing to push for concessions to Washington. Concern over his political position has already contributed to more caution on his part, as demonstrated by the lack of specifics in the 9 April trade package. Nakasone's successor probably would also be less sympathetic to the United States on issues where there was no palpable gain to Japan.

- Estimates by Japan's Economic Planning Agency indicate an

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import surcharge would have a significant impact on GNP growth. Any resulting rise in unemployment would damage the credibility of the LDP. [redacted]

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Basic questions about the bilateral relationship could affect cooperation across the board by accelerating Japan's movement toward a more independent stance that avoids the appearance of following Washington's lead.

- Tokyo might pull back on joint aid programs and concentrate on unilateral efforts that would open the way for increased economic penetration in third country markets. In addition, the Japanese might be less willing to accommodate US policy in doling out aid to countries where they have few interests.
- Defense cooperation could be slowed, and Tokyo would be even more resistant to sharing defense related technologies, especially in light of Defense Department efforts to restrict Japan's access to US technology.
- Joint programs, such as the space station, could be jeopardized. [redacted]

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At the same time, Tokyo would move to strengthen relations with the rest of the world--particularly Europe, Southeast Asia and China.

- Japan would probably use economic incentives to strengthen ties--perhaps to the detriment of US market share.
- Tokyo might also step up efforts to ease tensions with Moscow, especially if Gorbachev continues to appear more open and interested in improving relations. [redacted]

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